

Frequently Asked Questions for Local Road Agency Transfers of Act 51 Street Funds

- 1. My agency has a debt service fund and Street Funds are transferred annually to the debt service fund for the transportation portion of the cost. Is this OK in light of the document?**

Local Road Agencies are permitted to issue debt for road purposes as indicated in the Attorney General Opinion 5558. This is not a transfer of funds but instead a repayment of debt. Street funds can be used for the repayment of debt as long as the debt was issued for transportation purposes. In the Act 51 Report, the repayment of debt should be recorded in the Schedule of Long Term Debt and shown as an expenditure on the principal and interest expenditure lines. For GAAP accounting, CPA's must show this as a transfer on your audited financial statements.

- 2. My Local Road Agency has a State Infrastructure Bank (SIB) Loan from MDOT that must be repaid. How should this be reported and is this a violation of the guidance?**

A SIB Loan would be reported on line 47 – Other on the Other Financing Sources (Uses) page of the Act 51 report for cities/villages. The entire amount of the loan would be reported in the year the loan contract is signed and funds are disbursed. The repayment of the loan would be treated as debt and reported on the Schedule of Long Term Debt as a loan and on lines 37 – Principal and line 38 – Interest and Bank Fees until the loan has been repaid.

- 3. My municipality passed a special assessment/tax levy for a project and created a special fund for this revenue stream. My municipality wants to take the major and local street funds and move them into this special fund for the project. Is this allowed based on the guidance issued for Local Road Agency Transfers of Act 51 Street Funds?**

No. This is not allowable based on the guidance issued by MDOT. This special revenue would need to be transferred into the street funds and expended from the street funds to properly account for all transportation activities.

- 4. Why am I allowed to transfer General Fund dollars into or out of the Major or Local Street funds throughout a fiscal year, but not allowed to transfer out after the close of the fiscal year?**

Once funds from any source are transferred or deposited to the Major or Local Street Funds they take on the restricted nature of those funds and cannot be transferred out. However, we acknowledge that an agency may have a temporary or emergency need within the year, for example for cash flow or other operational purposes. An accounting entry to show movement of General Fund (or other fund) dollars into the Major or Local Street Funds to resolve this temporary situation must be reversed in that same fiscal year.

If those transferred funds remain in the Major or Local accounts at year end, we view this as a permanent increase to the restricted fund(s). We would expect to see the General Fund recorded as revenue on the annual Street Financial Report as an Other Financing Source.

We allow M/L funds to borrow from other agency funds, but we do not allow other agency funds to borrow from M/L.